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January 24, 2007

Ms. Cheryl Kikuta  
Utilities Administrator  
Division of Consumer Advocacy  
Department of Commerce and Consumer Affairs  
335 Merchant Street, Room 326  
Honolulu, Hawaii 96813

PUBLIC UTILITIES  
COMMISSION

2007 JAN 24 P 3:40

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Dear Ms. Kikuta:

Subject: Docket No. 05-0315  
HELCO 2006 Test Year Rate Case  
Responses to Supplemental Information Requests

Enclosed are Hawaii Electric Light Company, Inc.'s ("HELCO") responses to the Consumer Advocate's information requests to HELCO's Act 162 Supplemental Testimonies and Consultant Report.

Sincerely,

Dean K. Matsuura  
Director, Regulatory Affairs

Enclosure

cc: Sawvel & Associates, Inc.  
Utilitech, Inc.  
Keahole Defense Coalition  
Public Utilities Commission

CA-IR-A162-1

**Ref: HELCO ST-23, page 14, lines 10 through 18.**

Mr. Makholm mentions state commissions in Florida, Louisiana and North Carolina as examples of jurisdictions that have established specific incentives for power plant performance. Please provide a copy of the materials that Mr. Makholm reviewed describing the incentives for power plant performance in each of these states.

HELCO Response:

See Attachments to CA-IR-A162-1.

Louisiana: pp. 2-3

North Carolina: pp. 4-8

Florida: pp. 9-13

**ENTERGY NEW ORLEANS, INC.**  
ELECTRIC SERVICE

RIDER SCHEDULE FAC-3

Effective: October 27, 2006  
Filed: October 27, 2006  
Supersedes: FAC-2 filed 8/25/05  
Schedule Consists of: One Sheet Plus  
Attachment A

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**FUEL ADJUSTMENT CLAUSE**

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**I. GENERAL**

**A. PURPOSE**

This Fuel Adjustment Clause ("Rider FAC") defines the procedure by which Entergy New Orleans, Inc. ("ENO" or "Company") shall recover its net fuel, purchased energy and capacity costs in accordance with the provisions of Section III of this Rider FAC. Rider FAC shall apply in accordance with the provisions of Section I.B below to electric service billed under certain rate schedules and/or rider schedules, whether metered or unmetered, subject to the jurisdiction of the Council of the City of New Orleans ("Council").

**B. FUEL ADJUSTMENT CLAUSE RATES**

The monthly rates associated with the Fuel Adjustment Clause ("Fuel Adjustment Clause Rates") shall be set forth in Attachment A, Section 4, Page 1 of 6, to this Rider FAC. The Fuel Adjustment Clause Rates shall be determined in accordance with the provisions of Sections II and III of this Rider FAC. The Fuel Adjustment Clause Rates shall be applied in accordance with the provisions set out in Attachment A to this Rider FAC. This shall constitute the maximum allowable rates. However, the Company has the obligation to minimize over-recoveries and is allowed to charge lower rates to minimize such over recoveries. To the extent that the over-recovered balance exceeds \$3 million, the Company is required to refund, in the next Rider FAC calculation, by use of a credit in the Rider FAC calculation, all of the over collection.

**II. MONTHLY FUEL ADJUSTMENT CLAUSE FILING**

On or before the first billing cycle of each month beginning in November 2006, the Company shall file a monthly Fuel Adjustment Clause Filing with the Council. The monthly Fuel Adjustment Clause Filing shall include the monthly Fuel Adjustment Clause Rates as determined by application of the formula set out in Attachment A to this Rider FAC. Each Fuel Adjustment Clause Filing shall be filed with the Council and shall be accompanied by a set of workpapers sufficient to document fully the calculations of the redetermined Fuel Adjustment Clause Rates.

**III. METHODOLOGIES**

**A. FUEL RATES**

The fuel rates shall be determined by using the Henry Hub Strip price for the billing month plus \$0.10/mmBtu for transportation charges and any applicable Louisiana taxes, adjusted for a 7500 Btu/kWh heat rate and converted to \$/kWh.

**B. CAPACITY RATES**

The capacity rates shall be determined as set forth in Attachment A, Section 1, Page 4 of 6, to this Rider FAC.

**C. OVER / UNDER RECOVERY**

The Fuel Adjustment Clause Filing should include an over / under recovery computation to provide a true-up of Fuel Costs to actual Rider FAC revenues. This computation should be made in accordance with Attachment A, Page 2 of 6 to this Rider FAC and should include a credit for incremental revenues from any base rate increase to Rate Schedule LIS in accordance with Attachment A, Page 4 of 6 to this rider FAC.

**D. CARRYING CHARGES ON OVER / UNDER RECOVERY**

The over / under recovery computation should include interest on the average of the balances existing at the beginning and end of the current operating month. The interest rate to be utilized is the prime bank lending rate as published in the Wall Street Journal on the last business day of each month.

**E. CALCULATION FOR RATE SCHEDULE LIS**

The monthly FAC rate for customers taking service under Rate Schedule LIS will be calculated using actual costs for the second prior month preceding the billing month. The actual capacity costs shall be adjusted to remove  $\frac{1}{2}$  of the Schedule A Grand Gulf capacity costs included in base rates in Docket No. UD-01-04.

**IV. CORRECTION OF ERRORS IN PRIOR PERIODS**

ENO is obligated to correct filing errors in prior period Fuel Adjustment Clause Filings. Filing errors are differentiated from vendor invoice errors or changes that occur on a continuing basis that are simply corrected in the then-current operating month's fuel costs. Filing errors in prior period filings must be described and quantified in a supplemental report in the current operating month filing. Correction of the errors will be through an addition or subtraction to the cumulative over / under recovery balance absent other direction from the Council. The correction of the error should include interest from the effective date of the error through the effective date of the correction pursuant to Section III B above.

**V. TERM**

This Rider FAC shall remain in effect until modified or terminated in accordance with the provisions of this Rider FAC or applicable regulations or laws. Nothing herein shall prevent the Council or the Company from proposing elimination of this Rider FAC at any time in the manner provided by law.

Nothing contained in this Rider FAC shall limit the right of any party to file an appeal as provided by law.

**REPORT OF THE  
NORTH CAROLINA UTILITIES COMMISSION  
TO  
THE JOINT LEGISLATIVE  
UTILITY REVIEW COMMITTEE  
REGARDING  
FUEL CHARGE ADJUSTMENT PROCEEDINGS  
FOR ELECTRIC UTILITIES  
(Pursuant To G.S. 62-133.2)**



**July 2005**

June 30, 2005

Senator David W. Hoyle, Co-Chairman  
Joint Legislative Utility Review Committee  
300-A Legislative Office Building  
Raleigh, North Carolina 27601-2808

Dear Senator Hoyle:

The Utilities Commission hereby presents for your consideration its 2005 Report to the Joint Legislative Utility Review Committee regarding fuel charge adjustment proceedings for electric utilities. Copies are being distributed to each current member of the Committee.

This report is being provided pursuant to the provisions of Chapter 15 of the 1995 Session Laws. This legislation requires the Utilities Commission to provide biennial reports summarizing the procedures conducted pursuant to G.S. 62-133.2, which is the statute providing for fuel charge adjustments for electric utilities. In this report, the Utilities Commission summarizes the six proceedings conducted under this statute during the preceding two years.

Very truly yours,

Jo Anne Sanford, Chair

JAS/GTS/mmr

cc: Members of the JLURC  
Steven J. Rose, Committee Counsel  
Kory Goldsmith, Assistant Committee Counsel  
Cindy Coley, Committee Clerk  
Progress Energy Carolinas, Inc.  
Duke Power  
Dominion North Carolina Power  
Robert P. Gruber, Executive Director, Public Staff  
The Honorable Roy Cooper, Attorney General  
Carolina Utility Customers Association, Inc.  
Carolina Industrial Group for Fair Utility Rates  
NC State Publications Clearinghouse

## INTRODUCTION

This report is being provided to the Joint Legislative Utility Review Committee pursuant to the provisions of Chapter 15 of the 1995 Session Laws. This legislation requires the Utilities Commission (Commission) to provide biennial reports summarizing the proceedings conducted pursuant to G.S. 62-133.2, the statute providing for fuel charge adjustments for electric utilities.

G.S. 62-133.2 provides for two types of rate adjustments: fuel charge adjustments and "true-ups." They both take place in the context of a single hearing, but they are separate and distinct, and it is important to distinguish between them. A fuel charge adjustment is a prospective adjustment to the fuel cost component of electric rates (the fuel factor) designed to account for changes in the cost of fuel and the fuel component of purchased power as set in the electric company's last general rate case (the base fuel factor). A fuel charge adjustment is based on pro forma data and utilizes a historical test period. The test period data is used as a guide to what fuel costs will be in the future. No matter how carefully a fuel charge adjustment is set, it will never perfectly match the fuel costs that the utility actually incurs in the future, and that is why a "true-up" is allowed. The "true-up" looks at data to determine whether the reasonable fuel expenses prudently incurred by the utility were more or less than what had been provided for in the rates collected during that period. A "true-up" is an adjustment to rates by which under-recovered fuel costs are collected by the utility over-recovered fuel costs are returned to customers. The "true-up" adjustment is referred to as an experience modification factor (or EMF) rider.

Fuel charge adjustments first began in North Carolina during the 1970's, when the price of fuel was escalating rapidly as a result of the Arab oil embargo. The Commission first used its traditional ratemaking powers to establish formulas under which fuel charge factors were added to customers' bills each month based upon ongoing changes in the cost of fuel. This procedure was challenged in court and was upheld by the Supreme Court in 1976. Meanwhile, in 1975, the General Assembly amended G.S. 62-134 in order to provide a statutory basis for fuel charge adjustment proceedings. In 1982, based upon the recommendation of the Utility Review Committee (the predecessor of the Joint Legislative Utility Review Committee), the General Assembly repealed the fuel charge adjustment provisions of G.S. 62-134(e) and enacted the immediate predecessor of the present fuel charge adjustment statute, G.S. 62-133.2. Under this statute, fuel charge adjustment proceedings are held once each year for each electric utility that generates electricity by fossil or nuclear fuels to determine whether the fuel cost component of electric rates should be adjusted up or down to reflect actual changes in the utility's cost of fuel and in the fuel cost component of the power purchased by the utility.

"True-ups" were first introduced in 1985. In a fuel charge adjustment proceeding for Carolina Power & Light Company, the Commission added an "experience modification factor" to rates in order to allow CP&L to recover a portion of its previously under-recovered fuel expense. This Order was challenged in court, and in 1987 the Court of Appeals held that G.S. 62-133.2, as then written, did not authorize such a "true-up." However, on July 24, 1987, the General Assembly amended G.S. 62-133.2 in order to provide explicitly for "true-ups."

By this same 1987 legislation, the General Assembly provided for repeal of the entire fuel charge adjustment statute in two years, on July 1, 1989. In 1989, the General Assembly extended the sunset date until July 1, 1991. In 1991, the General Assembly again extended the sunset date, this time for six years until July 1, 1997, and also provided for the Commission to report every two years to the Joint Legislative Utility Review Committee "summarizing the procedures conducted pursuant to G.S. 62-133.2 during the preceding two years and recommending whether this section should be continued, repealed, or amended." On March 22, 1995, the General Assembly ratified Senate Bill 271. This legislation, which appears as Chapter 15 of the 1995 Session Laws, removed the sunset provision from the fuel charge adjustment statute. It also required the Commission to provide a report to the Joint Legislative Utility Review Committee summarizing the fuel cost adjustment procedures conducted during the previous two years but eliminated the requirement for the report of the Commission to include a recommendation as to whether G.S. 62-133.2 should be continued, repealed, or amended. Thus, this is the report of the Commission summarizing the fuel cost adjustment procedures during the previous two years submitted pursuant to G.S. 62-133.2(g).

### **SUMMARY OF FUEL CHARGE ADJUSTMENT PROCEEDINGS**

Before summarizing the individual proceedings conducted pursuant to G.S. 62-133.2 during the preceding two years, the Commission will provide a brief background on the way the statute is administered.

The statute applies to Duke Power, a division of Duke Energy Corporation (Duke); Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc., a subsidiary of Progress Energy Inc. (PEC); and Virginia Electric and Power Company d/b/a Dominion North Carolina Power, a subsidiary of Dominion Resources, Inc. (Dominion NC Power). The Commission, following lengthy rulemaking proceedings, adopted Commission Rule R8-55 to implement the statute. A copy of this Rule is attached to this report as Appendix A. The rule establishes a date certain for each company's annual fuel charge adjustment hearing. The hearing for Duke is held the first Tuesday of May each year, the hearing for PEC is held the first Tuesday of August each year, and the hearing for Dominion NC Power is held on the second Tuesday of November each year. If a company has a general rate case hearing scheduled close to the date for its annual fuel charge adjustment hearing, the two hearings may be consolidated. However, the issues in the fuel charge adjustment proceeding will be decided separately from the issues in the general rate case. Rule R8-55 establishes a test period for each company that is uniform from year to year. The test period for Duke is the calendar year, the test period for PEC is the 12-month period ending March 31, and the test period for Dominion NC Power is the 12-month period ending June 30.

The burden of proof is on the utility to show that its fuel expenses were reasonable and prudently incurred. As previously noted, fuel charge adjustments were originally prompted by fluctuating fuel prices resulting from the Arab oil embargo. More recent fluctuations in fuel expenses have generally been due to the availability of nuclear generating units, a heavier reliance on generating units using fossil fuels to serve the growth in electric load even when all existing nuclear

generating units perform at high capacity factors and increased fossil fuel costs. The cost of nuclear fuel is far less than the cost of coal and other fossil fuels, and the level of total fuel expense is, therefore, significantly affected by how well a utility's nuclear power plants operate. Thus, the capacity factors for nuclear plants are important considerations in fuel charge adjustment proceedings. Appropriate nuclear capacity factors are crucial both in setting rates for the future and also in determining the amount of the "true-up." Only "reasonable fuel expenses prudently incurred" are trued-up, and the Commission uses nuclear capacity factors as indications of management efficiency and prudence. In that regard, Rule R8-55(i) specifically provides:

The burden of proof as to the correctness and reasonableness of any charge and as to whether the test year fuel expenses were reasonable and prudently incurred shall be on the utility. For purposes of determining the EMF rider, a utility must achieve either (a) an actual systemwide nuclear capacity factor in the test year that is at least equal to the national average capacity factor for nuclear production facilities based on the most recent 5-year period available as reflected in the most recent North American Electric Reliability Council's Equipment Availability Report, appropriately weighted for size and type of plant or (b) an average systemwide nuclear capacity factor, based on a two-year simple average of the systemwide capacity factors actually experienced in the test year and the preceding year, that is at least equal to the national average capacity factor for nuclear production facilities based on the most recent 5-year period available as reflected in the most recent North American Electric Reliability Council's Equipment Availability Report, appropriately weighted for size and type of plant, or a presumption will be created that the utility incurred the increased fuel expense resulting therefrom imprudently and that disallowance thereof is appropriate. The utility shall have the opportunity to rebut this presumption at the hearing and to prove that its test year fuel costs were reasonable and prudently incurred. To the extent that the utility rebuts the presumption by the preponderance of the evidence, no disallowance will result.

While nuclear capacity factors remain an important consideration in fuel charge adjustment proceedings, nuclear plant performance has improved and the nuclear capacity factors have tended to stabilize over the years. However, the existing nuclear units are not capable of generating enough electric energy to meet the total demand for electric energy, even at the highest possible levels of performance. Since the demand for electric energy in North Carolina has grown, the reliance on generating units using more expensive fossil fuels to produce additional energy has also increased and this is another factor which has contributed to higher fuel expenses and fuel factors. Finally, in more recent years, the unit price of fossil fuels has increased, which has also impacted utility fuel costs.

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.	DOCKET NO. 050001-EI ORDER NO. PSC-05-1252-FOF-EI ISSUED: December 23, 2005
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The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman  
J. TERRY DEASON  
RUDOLPH "RUDY" BRADLEY  
LISA POLAK EDGAR  
ISILIO ARRIAGA

APPEARANCES:

JOHN T. BUTLER, ESQUIRE, Squire, Sanders & Dempsey LLP, 200 South Biscayne Blvd., Suite 4000, Miami, Florida 33131-2398 and R. WADE LITCHFIELD, ESQUIRE, 700 Universe Boulevard, Juno Beach, Florida 33408  
On behalf of Florida Power & Light Company (FPL).

NORMAN H. HORTON, JR., ESQUIRE, Messer, Caparello & Self, P. A., P. O. Box 1876, Tallahassee, Florida 32302-1876  
On behalf of Florida Public Utilities Company (FPUC).

JEFFREY A. STONE, ESQUIRE, RUSSELL BADDERS, ESQUIRE, and STEVEN R. GRIFFIN, ESQUIRE, Beggs and Lane, P. O. Box 12950, Pensacola, FL 32591-2950  
On behalf of Gulf Power Company (GULF).

GARY V. PERKO, ESQUIRE, and CAROLYN S. RAEPPLE, ESQUIRE, Hopping Green & Sams, P.A., P. O. Box 6526, Tallahassee, Florida 32314 and R. ALEXANDER GLENN, ESQUIRE, Progress Energy Service Company, LLC, 100 Central Avenue, St. Petersburg, Florida 33701-3324  
On behalf of Progress Energy Florida, Inc. (PEF).

LEE. L. WILLIS, ESQUIRE and JAMES D. BEASLEY, ESQUIRE, Ausley & McMullen, P. O. Box 391, Tallahassee, Florida 32302  
On behalf of Tampa Electric Company (TECO).

MICHAEL B. TWOMEY, ESQUIRE, P. O. Box 5256, Tallahassee, FL 32314-5256  
On behalf of AARP (AARP).

RATE SCHEDULE	CAPACITY COST RECOVERY FACTOR ( <u>¢/kWh</u> )
GS and TS	0.321
GSD	0.263
GSLD and SBF	0.240
IS-1, IS-3, SBI-1, SBI-3	0.022
SL-2, OL-1 and OL-3	0.045

#### VI. GENERATING PERFORMANCE INCENTIVE FACTOR (GPIF) ISSUES

Based on the evidence in the record and stipulation of the parties, we approve the following as the appropriate GPIF rewards/penalties for performance achieved during the period January 2004 through December 2004:

FPL: \$10,816,748 reward  
Gulf: \$441,988 reward  
PEF: \$532,353 reward  
TECO: \$729,534 reward

Based on the evidence in the record and stipulation of the parties, we approve the following as the appropriate GPIF targets/ranges for the period January 2006 through December 2006 for FPL, Gulf, and PEF:

FPL:

**Equivalent Availability and Heat Rate/NOF Targets for FPL Units**

Unit	FPL EAF/POF/EUOF Targets			FPL HR/NOF Targets
	EAF	POF	EUOF	
Ft. Myers 2	93.1	0.0	6.9	6,801 / 88.6
Lauderdale 4	93.3	2.7	4.0	7,690 / 79.5
Lauderdale 5	92.9	2.7	4.4	7,644 / 79.9
Martin 1	90.8	0.0	9.2	10,011 / 63.2
Martin 2	84.5	9.6	5.9	9,942 / 57.9
Martin 3	73.0	20.1	6.9	7,008 / 87.6
Martin 4	90.8	2.6	6.6	6,950 / 89.4
Sanford 5	91.3	0.4	8.3	6,879 / 86.8
Scherer 4	85.9	10.1	4.0	9,998 / 99.5
St. Lucie 1	93.6	0.0	6.4	10,870 / 100.0
St. Lucie 2	75.8	16.4	7.8	10,931 / 100.1
Turkey Point 3	86.0	6.8	7.2	11,078 / 99.8
Turkey Point 4	86.8	6.8	6.4	11,072 / 99.9

Gulf:

**Equivalent Availability and Heat Rate/NOF Targets for Gulf Power Co. Units**

Unit	Gulf EAF/POF/EUOF Targets			Gulf HR/NOF Targets
	EAF	POF	EUOF	
Crist 4	87.1	12.1	0.8	10,493 / 97.8
Crist 5	92.4	6.3	1.3	10,375 / 98.7
Crist 6	90.2	0.0	9.8	10,171 / 99.0
Crist 7	80.8	8.2	11.0	10,268 / 90.8
Smith 1	98.1	0.0	1.9	10,176 / 99.4
Smith 2	84.1	6.3	9.6	10,222 / 99.3
Daniel 1	93.6	2.5	3.9	10,181 / 99.7
Daniel 2	81.5	15.3	3.2	10,027 / 99.7

**Note:** NOF is not used for target setting for Gulf.

PEF:

**Equivalent Availability and Heat Rate/NOF Targets for PEF Units**

Unit	PEF EAF/POF/EUOF Targets			PEF HR/NOF Targets
	EAF	POF	EUOF	
Anclote 1	87.67	7.67	4.65	10,483 / 39.6
Anclote 2	84.31	11.51	4.18	10,352 / 40.8
Bartow 1	85.62	3.84	10.54	10,942 / 50.2
Bartow 2	92.62	3.84	3.54	10,890 / 59.6
Bartow 3	95.46	0.00	4.54	10,216 / 57.2
Crystal River 1	92.72	0.00	7.28	10,296 / 69.1
Crystal River 2	82.06	3.84	14.11	10,116 / 69.6
Crystal River 3	97.31	0.00	2.69	10,259 / 100.1
Crystal River 4	93.22	2.47	4.31	9,511 / 82.6
Crystal River 5	87.27	7.67	5.06	9,513 / 85.9
Hines 1	87.63	8.77	3.60	7,450 / 73.3
Tiger Bay	88.99	5.75	5.25	8,006 / 87.3

With regard to TECO, staff Witness Matlock proposed alternative equivalent availability factor (EAF) targets for four of TECO's five GPIF units for 2006. The EAF targets for TECO are based on actual 12-month averages adjusted for differences between the number of planned outage hours and number of reserve shutdown hours for the historic period and the projected target period. EAF targets should be based on recent historical performance to the extent that historical performance reflects what is expected in the near future. Mr. Matlock proposed that the monthly equivalent forced outage rates (EFOR) and equivalent maintenance outage rates (EMOR) that are greater than 40% be excluded from the averages used to calculate TECO's 2006 EAF targets. This method would exclude outages of greater length or frequency than one would reasonably expect in the coming period from the EAF target. In Mr. Matlock's view, this would result in more appropriate targets for TECO, since they are based on historical performance and recent trends.

TECO's Witness Smotherman disagreed with Witness Matlock's approach, and instead proposed EAF targets that were solely based on historical data for the last 12-month period, and did not include any adjustments for recent trends. Mr. Smotherman also testified that TECO has consistently interpreted the GPIF manual in this fashion, by not making any adjustments to historical data in calculating EAF targets.

After considering the testimony of both Mr. Matlock and Mr. Smotherman, we are uncomfortable with deviating from the consistent way in which the GPIF manual has been applied by TECO. As a result, we believe that it should be applied in the same way here. At the same time, we think that some significant relevant points have been raised, and we would suggest that before we actually open up the entire GPIF manual for review, TECO and our staff

should meet and see if they can come to an agreement on modifications to the manual. If a new methodology can be agreed upon and we approve it, then everyone will know what the rules are on a going-forward basis. We are hesitant in this instance to change the rules midstream here when penalties and rewards are at stake. We would rather have the procedures better defined on a going-forward basis so that all parties will know what those procedures are. Therefore, based on the evidence in the record, we approve the GPIF targets and ranges proposed by TECO. The approved GPIF targets and ranges for TECO are contained in the table below.

**Equivalent Availability and Heat Rate/NOF Targets for Tampa Electric Co. Units**

Unit	TEC EAF/POF/EUOF Targets			TEC HR/NOF Targets
	EAF	POF	EUOF	
Big Bend 1	63.6	15.3	21.0	10,841 / 75.9
Big Bend 2	77.3	3.8	18.9	10,510 / 84.2
Big Bend 3	56.2	9.6	34.2	10,923 / 69.1
Big Bend 4	71.9	5.8	22.4	10,672 / 81.6
Polk 1	60.3	4.4	35.3	10,497 / 88.9

**VII. OTHER MATTERS**

The parties stipulated that the new fuel adjustment charges and capacity cost recovery factors approved in this Order shall be effective beginning with the first billing cycle for January 2006, and thereafter through the last billing cycle for December 2006. The parties also stipulated that the first billing cycle may start before January 1, 2006, and the last billing cycle may end after December 31, 2006, so long as each customer is billed for twelve months regardless of when the factors became effective. We approve these stipulations as reasonable.

FPUC's Motion for Extension of Time, filed November 4, 2005, requesting additional time to provide discovery to our staff and to OPC is hereby granted. FPL's Motion for Protective Order, filed November 4, 2005, covering certain confidential information provided in response to OPC's Third Request for Production of Documents, and which OPC has indicated it would use at the hearing, is hereby granted. FIPUG's Request for Official Recognition, filed November 4, 2005, asking for official recognition of the November 4, 2005 NYMEX natural gas futures prices is hereby granted. FPUC's Motion for Temporary Protective Order, filed November 7, 2005, covering certain confidential information provided to OPC in response to OPC's Second Request for Production of Documents is hereby granted. FPUC's Request for Confidential Classification, filed November 7, 2005, covering certain confidential information responsive to Request for Production of Documents No. 6 of our staff's Second Request for Production of Documents is hereby granted.

Upon review of the pleadings and consideration of the arguments expressed both in writing and orally at the hearing, OPC's Motion to Defer Issue of Prudence and Reasonableness of PEF's Coal Costs, filed November 4, 2005, is granted. The attendant Motion for Oral

CA-IR-A162-2

**Ref: HELCO ST-23, page 15, lines 20 through 23.**

Please explain how changes in purchase power costs should be passed through the ECAC. In particular, HELCO incurs capacity or demand charges in its purchase power agreement with PGV (Performance Agreement with Puna Geothermal Venture (approved in Docket No. 96-0042)). However, if PGV cannot deliver the contracted capacity amount in the agreement, a capacity sanction is imposed which results in a decrease to the capacity payment.

- a. Should this adjustment to the capacity payment be passed through the ECAC?
- b. If the answer to part a. is no, please explain why it should not be passed through.

**HELCO Response:**

- a. No.
- b. To the extent that purchased power capacity costs are included in base rates, those expenses should be treated as any other O&M expense included in base rates, i.e., not reconciled to actual expenses. (See also HELCO's response to CA-IR-511.)

However, when the capacity costs for a non-fossil fueled purchased power agreement are not included in base rates, the Firm Capacity Surcharge is the most appropriate recovery mechanism. Firm capacity expenses not included in base rates are demand costs and should be recovered on the basis of base revenue, which includes billing components of demand. The Firm Capacity Surcharge recovers firm capacity expenses as a percentage of customers' base revenue.

The Energy Cost Adjustment Clause, on the other hand, passes through to customers changes in energy costs (adjusted for the efficiency factor) via an Energy Cost Adjustment Factor expressed in cents per unit of energy, or per kilowatthour, since recovering/returning energy costs using customers' energy consumption is reasonable. However, energy consumption alone is not the most appropriate basis for the recovery of demand costs. Thus,

the Firm Capacity Surcharge should be the recovery mechanism for non-fossil fueled purchased power firm capacity expenses.

CA-IR-A162-3

**Ref: HELCO ST-23, page 17, lines 21 and 22.**

Does the HELCO ECAC treat all sources of generation equally and allow recovery of energy costs from all sources? Please explain your answer.

**HELCO Response:**

Fuel expenses for HELCO's central station fossil fuel units may only be recovered at specified heat rate targets. HELCO's distributed generation and the generators supplying purchased energy are not required to meet such targets. Except for this requirement, the HELCO ECAC allows recovery of energy costs from all sources.

CA-IR-A162-4

**Ref: HELCO ST-23, page 17, lines 15 through 19.**

- a. Please explain why the following statement is true “: but any rising costs also provided the utility with a greater incentive to use other, less expensive fuels to generate electricity.”
- b. If fuel costs are passed through to the consumer and the utility is no longer at risks for fuel costs, why would the utility have an incentive to use less expensive fuels?

**HELCO Response:**

- a. HELCO is a regulated entity subject to regulatory scrutiny of its fuel and purchased power procurement, resource planning, and economic dispatch.
- b. See the Response to CA-IR-A162-4(a).